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January 11, 2018

VIA ELECTRONIC FILING

The Honorable Jocelyn G. Boyd
Chief Clerk/Administrator
The Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia SC 29210

**Re: Petition of Duke Energy Progress, LLC for an Accounting Order to Defer Incremental Storm Damage Expenses from Hurricane Florence and Hurricane Michael, and to Continue Previously Authorized Storm Deferrals
Docket No. 2019-____-E**

Dear Mrs. Boyd:

Enclosed for filing please find the Petition of Duke Energy Progress, LLC for an Accounting Order to Defer Incremental Storm Damage Expenses from Hurricane Florence and Hurricane Michael, and to Continue Previously Authorized Storm Deferrals.

Please do not hesitate to contact me if you have any questions or require any further information.

Sincerely,

Heather Shirley Smith

Enclosure

cc: Ms. Nanette Edwards, Office of Regulatory Staff (via email w/enc.)
Ms. Dawn Hipp, Office of Regulatory Staff (via email w/enc.)
Mr. Jeffrey Nelson, Esq., Office of Regulatory Staff (via email w/enc.)

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 2019-__-E

<p>In re:</p> <p>Petition of Duke Energy Progress, LLC for an Accounting Order to Defer Incremental Storm Damage Expenses from Hurricane Florence and Hurricane Michael and to Continue Previously Authorized Storm Deferrals</p>	<p>) PETITION OF DUKE ENERGY) PROGRESS, LLC FOR AN) ACCOUNTING ORDER TO DEFER) INCREMENTAL STORM) DAMAGE EXPENSES FROM) HURRICANE FLORENCE AND) HURRICANE MICHAEL, AND TO) CONTINUE PREVIOUSLY) AUTHORIZED STORM) DEFERRALS</p>
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Duke Energy Progress, LLC (“DE Progress” or the “Company”) hereby respectfully petitions the Public Service Commission of South Carolina (the “Commission”) pursuant to S.C. Code Ann. Sections 58-3-140, 58-27-140, and 58-27-1540, 26 S.C. Code Reg. 103-825, and other applicable rules and regulations of the Commission, for an accounting order for regulatory and financial accounting purposes to defer significant costs incurred in connection with Hurricanes Florence and Michael. Hurricane Florence devastated large portions of South Carolina and North Carolina in September 2018, resulting in unprecedented costs and the costliest single storm restoration project in the Company’s history. Just over three weeks later, the remnants of Hurricane Michael inflicted additional damage across the DE Progress service territory.

Additionally, the Company is requesting to continue prior storm deferrals approved by this Commission, as explained later in this Petition. The request for relief set forth herein will not involve a change to any of DE Progress’ retail rates or prices at this time, or require any change in any Commission rule, regulation or policy. In addition, the issuance of the requested accounting

order will not prejudice the right of any party to address these issues in a subsequent rate proceeding. Accordingly, neither notice to the public at-large, nor a hearing is required regarding this Petition. In support of this Petition, DE Progress respectfully shows the Commission the following facts, and petitions the Commission for the following relief:

Name and Address of the Company

The correct name and post office address of the Company are:

Duke Energy Progress, LLC
410 S. Wilmington Street
Raleigh, NC 27602

Notices and Communications

The name and addresses of the attorneys of DE Progress who are authorized to receive notices and communications with respect to this Petition are:

Heather Shirley Smith, Deputy General Counsel
Duke Energy Progress, LLC
40 West Broad St., Suite 690
Greenville, South Carolina 29601
Telephone: 864.370.5045
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and

Frank R. Ellerbe, III
Robinson Gray Stepp & Laffitte, LLC
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Copies of all pleadings, orders or correspondence in this proceeding should be served upon the attorneys listed above.

Description of the Company

DE Progress is engaged in the generation, transmission, distribution and sale of electric energy at retail in the northeastern portion of South Carolina, a substantial portion of the coastal plain of North Carolina extending from the Piedmont to the Atlantic coast between the Pamlico River and the South Carolina border, the lower Piedmont sections of North Carolina, and area in western North Carolina in and around the city of Asheville. The Company also sells electricity at wholesale to municipal, cooperative and investor-owned electric utilities and its wholesale sales are subject to the jurisdiction of the Federal Energy Regulatory Commission. DE Progress is a corporation organized and existing under the laws of North Carolina, is authorized to transact business in the State of South Carolina, and is a public utility under the laws of South Carolina. Accordingly, its operations in South Carolina are subject to the jurisdiction of the Public Service Commission of South Carolina pursuant to the provisions of Chapter 27 of Title 58 of the South Carolina Code of Laws.

Background

Hurricane Florence

Just days before making landfall, Hurricane Florence approached the Carolinas' coast as a Category 4 hurricane. In response, DE Progress mobilized an army of staff and crews of approximately 20,000 people, the largest in its history, to stage throughout the Carolinas to immediately deploy as soon it was safe to begin restoration efforts. After making landfall on September 14, 2018, the deadly hurricane stalled and crawled across South Carolina and North Carolina at three miles per hour for three days, producing record rainfall, gusty winds, and leaving epic flooding and devastation in its wake.

This deadly hurricane caused damage to DE Progress's electric system in South Carolina and North Carolina on an unprecedented scale - - well beyond the damage caused by the Company's worst prior storm, Hurricane Matthew, just two years ago in 2016. The total number of DE Progress customers impacted during the storm was 1,448,419 (119,785 in South Carolina and 1,328,634 in North Carolina). The peak number of customer outages for DE Progress in the Carolinas was approximately 529,000 (including approximately 73,000 in the South Carolina Pee Dee area), which occurred Saturday morning, September 15, 2018. More than 86 percent of customers were restored within 72 hours. By Sunday night, September 23, 2018, full restoration was accomplished for all customers able to receive service. By September 26, fewer than 1,500 customer accounts across both South and North Carolina remained without power. Those premises could not be restored because they were either unsafe to receive power, had been condemned or else damage to roadways impacted access to many of those remaining customers.

DE Progress experienced extraordinary damage to both the transmission and distribution systems. Specifically, the DE Progress transmission system had 136 substations and 45 lines out of service. DE Progress suffered almost 216 miles of downed wire, approximately 5,450 downed poles, and 1,860 damaged transformers across the Carolinas' system. The Company arranged for additional off-system linemen and support men and women from Alabama, Arkansas, the District of Columbia, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, New Jersey, Ohio, Oklahoma, Pennsylvania, Rhode Island, Tennessee, Texas, Wisconsin and Canada to assist with the restoration efforts. DE Progress housed thousands of these utility workers at staging areas in the forward operating zones. In addition to line crews, vegetation management professionals, damage assessors and support personnel worked around the clock in call centers and operations centers to answer customer

outage calls, assess damage and dispatch crews. Other support personnel handled logistics, such as meals, housing and refueling for the crews - - all of which were complicated by the massive flooding and road closures caused by the storm. The Company also provided pre-storm preparation and post-impact restoration updates to customers through traditional venues and social media as well as text messages and emails.

Hurricane Michael

Hurricane Michael came ashore in the Florida Panhandle on October 10, 2018 as a Category 4 hurricane, and quickly reached the Carolinas as a tropical storm on October 11. This fast-moving storm brought heavy winds and rain to the already saturated DE Progress service territory, resulting in widespread damage and outages. Duke Energy mobilized more than 9,000 personnel from Company, contractor, and off-system mutual assistance crews to restore the grid.

The total number of DE Progress customers impacted during Hurricane Michael was 483,675 (47,459 in South Carolina and 436,216 in North Carolina). The peak number of customer outages for DE Progress in the Carolinas was approximately 170,222, which occurred Thursday, October 11, 2018, at 8 PM. Approximately 95 percent of DE Progress's customers were restored within 72 hours. As of Tuesday, October 16, 2018, full restoration was accomplished for all customers able to receive service.

Prior Deferrals

DE Progress has incurred significant storm restoration costs in its South Carolina service territory over the last five years. The Company has requested and received deferral for two 2014 storms (Docket No. 2014-482-E) and for Hurricane Matthew (Docket No. 2016-408-E).¹ The

¹ Order No. 2015-62 (January 21, 2015), Docket No. 2014-482-E, *Order Granting Petition for an Accounting Order to Defer Incremental Storm Damage Expenses Incurred as a Result of the Snow and Ice Storms in the First Quarter*

deferred balance as of the end of September 30, 2018, for each currently approved South Carolina retail deferral is as follows: 2014 Ice Event & Winter Storm Pax, \$14.7 million; and Hurricane Matthew, \$66 million. The Commission granted the Company permission to defer a return on the deferred balance for Hurricane Matthew, and DE Progress is currently doing so.

In DE Progress's current rate case in Docket No. 2018-318-E, the Company proposed not to begin amortization of the balances, but to instead continue to defer the return after the rates effective date in that case, and update the overall weighted average cost of capital used in the calculation once the Commission issues a final order in that docket.² The deferred balance for the 2014 storms was included in rate base in the Company's prior rate case in Docket No. 2016-227-E.³ In Docket No. 2018-318-E, the Company included a pro forma adjustment that removes this balance from rate base. Consequently, the Company requested to begin deferring a return on the deferred balance, at the overall weighted average cost of capital approved in this case, for the 2014 storms beginning with new rates effective in that case.

The Company respectfully requests that the Commission consider in this Petition the extension of those deferrals as ordered so that it may explore alternative options for recovery of these deferred balances for the storms described above. If the Company is unable to secure a suitable, alternative recovery mechanism that results in customer savings, then the Company, at that point, will need to seek recovery through more traditional mechanisms in a future rate case for all the deferred costs described in this Petition.

of 2014; Order No. 2017-52 (January 24, 2017), Docket No. 2016-408-E, *Order Granting Petition for an Accounting Order Deferring Incremental Storm Damage Expenses Resulting from Hurricane Matthew*.

² *Application of Duke Energy Progress, LLC for Adjustments in Electric Rate Schedules and Tariffs and Request for an Accounting Order*, Docket No. 2018-318-E (November 8, 2018).

³ *Application of Duke Energy Progress, LLC for Authority to Adjust and Increase its Electric Rates and Charges*, Docket No. 2016-227-E (June 3, 2016).

Requested Relief

DE Progress respectfully requests that the Commission issue an accounting order authorizing the Company to defer in a regulatory asset account the incremental costs, including incremental operation and maintenance (“O&M”) expenses, depreciation expense and carrying costs at its weighted average cost of capital on the incremental capital cost as well as the carrying costs on the deferred costs incurred in connection with Hurricanes Florence and Michael, and to extend the prior deferral orders described above. The Company plans to explore alternative options for recovery of these deferred balances such as securitization. If the Company is unable to secure a suitable, alternative recovery mechanism that results in customer savings, then the Company, at that point, will need to seek recovery through more traditional mechanisms in a future rate case.

The Company’s total incremental costs charged to O&M expense to repair and restore its system in South Carolina following Hurricane Florence and Hurricane Michael are expected to total approximately \$70 million and \$2 million, respectively. In addition, the Company made capital investments of approximately \$13 million for Hurricane Florence and \$1 million for Hurricane Michael in the restoration efforts. These amounts are estimated at this point and will be accumulated from the actual invoices for line workers, tree professionals, materials, and staging and logistics received from all of the various vendors. Some costs associated with Hurricanes Florence and Michael have been received and paid by DE Progress, however, invoices will continue to be received, validated and paid over the next several months. The total incremental cost above is the Company’s best estimate at this point and will be trued-up with final amounts expected to be known by mid-2019.

The Company believes these requests are consistent with the case law and policy in this State. The Commission has historically authorized accounting deferrals for incremental storm costs such as in Docket No. 2004-55-E; *Amended Order Approving Petition to Amortize Storm Damage Expenses*. In that petition, DE Progress requested an accounting order allowing it to defer and amortize certain storm damage expenses incurred to restore and/or replace property damaged or destroyed by an ice storm in January 2004. The Commission concluded that the approval of the requested accounting treatment was in keeping with Condition No. 34 contained in the Commission Order No. 2000-229 in Docket No. 1999-434-E/C, which allows DE Progress to request a deferred account for major expenditures to restore or replace property damaged or destroyed by *force majeure*. The Commission has previously authorized storm deferrals in recent years, such as in Order No. 2017-52 (January 24, 2017), Docket No. 2016-408-E; *Accounting Order Deferring Incremental Storm Damage Expenses Resulting from Hurricane Matthew*. In that petition, DE Progress requested an accounting order allowing it to defer and amortize certain storm damage expenses incurred to restore and/or replace property damaged or destroyed by Hurricane Matthew. In that Order, the Commission concluded that the approval of the requested accounting treatment was consistent with the public interest and authorized DE Progress to defer a) the incremental operation and maintenance expenses and b) the depreciation expense and carrying costs at its weighted average cost of capital on the incremental capital cost as well as the carrying costs on the deferred costs incurred in connection with Hurricane Matthew. See also, Order No. 2015-62 (January 21, 2015), Docket No. 2014-482-E, *Order Approving Petition for an Accounting Order to Defer Incremental Storm Damage Expenses Incurred as a Result of the Snow and Ice Storms in the First Quarter of 2014*. In that docket, the Commission approved incremental operations and maintenance expenses to repair and restore the Company's system. The deferral

requested in this petition is markedly similar to the previous deferrals authorized by the Commission. As such, it is appropriate to allow deferral of Hurricanes Florence and Michael costs as requested, and to allow and extend the approved deferrals for the 2014 storms and Hurricane Matthew at this time as well.

The Company's request will not involve a change to any DE Progress rates at this time, or to any Commission rule, regulation or policy. In addition, issuance of the accounting order does not prejudice any party's right to address this issue in a subsequent general rate case proceeding. Therefore, DE Progress respectfully requests that the Commission issue an accounting order, without notice and hearing pursuant, approving the Company's Petition.⁴

Financial Consequences of this Request

In its third quarter 2018 quarterly financial report filed with the Commission, DE Progress reported an annual return on common equity of 6.35 percent adjusted, for the twelve months ending September 30, 2018. On an adjusted basis, the Company's rate of return on jurisdictional common equity is less than the 10.1 percent approved by the Commission in DE Progress's last general rate case in Docket No. 2016-227-E. Without approval of this deferral request, the Company will face additional earnings degradation of approximately 613 basis points. Approval of this deferral request will benefit the Company and its customers by helping to ensure investors' confidence in DE Progress, and help assure access to needed capital on reasonable terms and equitable treatment as to deferred costs and revenues. To mitigate the impact to customers of the requested deferral, DE Progress is exploring alternative cost recovery methods that could result in customer savings. If the Company is not able to secure alternative cost recovery such as through securitization, the

⁴ Given that there is no rate change requested in this Petition, the requirement of notice and hearing contained in S.C. Code Ann. Sec. 58-27-870 do not apply.

Company will propose to amortize these deferred costs over a multi-year period in a subsequent rate case. Further, not allowing extensions of the prior approved deferrals for the 2014 storms and Hurricane Matthew could further erode earnings.

Conclusion

An accounting order granting the relief DE Progress seeks in this Petition will not preclude the Commission or any party from addressing the reasonableness of these deferred costs in the Company's next general rate proceeding or any Commission proceeding necessary to effectuate securitization, should any legislation be enacted which would permit securitization. Therefore, DE Progress petitions the Commission to authorize the Company to defer in a regulatory asset account: a) the incremental operation and maintenance expenses and b) the depreciation expense and carrying costs at its weighted average cost of capital on the incremental capital cost as well as the carrying costs on the deferred costs incurred in connection with Hurricanes Florence and Michael, which, as described in this Petition, caused significant outages and damage to DE Progress' system and affected South Carolina retail operations. DE Progress also petitions the Commission for an extension of the deferrals associated with the 2014 Ice Event, Winter Storm Pax and Hurricane Matthew as previously ordered, so that it may explore alternative options for recovery of these deferred balances.

Dated this 11th day of January, 2019.



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